June 8, 2010

Memorandum for: The Federal Co-Chair
ARC Executive Director

Subject: OIG Report 10-05
Fiscal Years 2008 and 2009 Financial Statement Audits

The enclosed report presents the results of the audit of the Commission's financial statements for the fiscal years ended September 30, 2008 and 2009. The report should be read in conjunction with the Commission's financial statements and notes to fully understand the context of the information contained therein.

The Appalachian Regional Commission (ARC) contracted with the independent certified public accounting firm of WithumSmith+Brown (WSB) to audit the financial statements of the Commission as of and for the fiscal years ended September 30, 2008 and 2009. The contracts required that the audits be conducted in accordance with U.S. generally accepted government auditing standards and OMB audit guidance. ARC's Office of Inspector General monitored audit activities to help ensure audit quality.

The following results were noted from WSB's audit of ARCs financial statements for the Fiscal Year Ended, September 30, 2009.

- WSB expressed an unqualified opinion on ARC's financial statements and reported that they were presented fairly in all material respects, in accordance with U.S. generally accepted accounting principles.

- WSB was not contracted for and did not provide an opinion on the effectiveness of ARC's internal controls. However, WSB did state that they did not identify any deficiencies in internal control that were considered to be material weaknesses,* relative to their expressing an opinion on ARC's financial statements.

- Two significant deficiencies were reported. One was related to the Department of Transportation's failure to timely correct recordkeeping errors previously identified** and the other was related to ARC's controls over its information systems.

* A material weakness is a condition that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal controls.

** This significantly contributed to ARC's failure to meet OMB's reporting deadline.

- WSB did not express an opinion on compliance with laws and regulations, but noted no instances of non-compliance with laws or regulations required to be reported under the provision of OMB Bulletin 07-04.

In connection with the contract, we reviewed WithumSmith+Brown's report and related documentation and inquired of its representatives. Our involvement in the audit process consisted of monitoring of audit activities, reviewing auditor independence and qualifications, attending meetings, participating in discussions, and reviewing audit planning and conclusion workpapers and reports. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the Appalachian Regional Commission's financial statements, conclusions about the effectiveness of internal control, or conclusions about compliance with laws and regulations. WithumSmith+Brown is responsible for the attached auditor's report dated May 7, 2010 and the conclusions expressed in the report. However, our review disclosed no instances where WithumSmith+Brown did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Clifford H. Jennings
Inspector General

Attachment

cc: Director, Finance and Administration Division